

Annual Report FY 2003

Program Performance Summary

Croatia began its transition to democracy and a market-oriented economy in January 2000, with the election of a coalition of democratic parties to parliament. A successful transition is important to the key U.S. foreign policy goals of achieving stability in the Balkans and managing transnational threats. Croatia has made significant, but uneven progress, and has not yet fully consolidated democratic institutions or successfully integrated into Euro-Atlantic institutions. Until recently, the Croatian government had stayed the course toward justice on war crimes and renewal of economic ties and other forms of cooperation with former Yugoslav partners. The Croatian government's hesitance to come into compliance with its obligation to cooperate with the International Criminal Tribunal for the former Yugoslavia (ICTY) when presented with an indictment for former Chief of General Staff Bobetko demonstrates that while the current government has made a serious start on the reform process, those reforms are not irreversible. The moral suasion of the international community, led by the United States, continues to be critical for encouraging Croatia to meet its Dayton and Erdut commitments, including cooperation USG assistance, the primary source of technical advice to the GOC on economic reform and strengthening of democratic institutions, continues to influence and leverage commitments that further U.S. national interests - including the development of a free market-oriented economy, fully reformed democratic institutions, cooperation on war crimes prosecution, and closer association to EU and other Western institutions. Staying the course in our support for these processes will be essential to helping Croatia weather not only the typical "transition backlash", but also a detectable resurgence of nationalist sentiment. The issue of minority returns to Croatia remains a major concern, with the momentum of the immediate post-2000 election period lost. The number of returns in 2002 was roughly equal to 2001, but remains down from 2000 levels by 25 percent. Few Croatian-Serbs are benefiting from GOC assistance in resolving accommodation and property issues. While neighbor-to-neighbor relations at the local level continue to improve gradually, problems with property restitution, lack of access to reconstruction assistance, and the absence of economic opportunity still have a negative impact on the return process.

While the GOC has made progress on achieving macroeconomic stability, the economy continues to perform below potential. Croatia is still plagued by a high unemployment rate (16%) and low competitive capacity in international markets. The moderate progress the government made over the last two years in reducing the fiscal deficit could be threatened as upcoming elections draw nearer. In order for this progress to translate into faster economic growth and eventually lower unemployment, the government must accelerate privatization, reduce bureaucracy and lower taxes. Furthermore, there is a need for increased efforts against corruption through more effective application of the rule of law, particularly improvement in the court system. Long recognized as one of the most significant impediments to investment and one of the most problematic areas of the EU accession process, the Croatian justice system is under increasing pressures for fundamental reforms and increased efficiencies.

The USAID assistance program is aimed to help Croatia continue progress toward a prominent place within the community of democratic and market-oriented nations, and to become a force for stability, peace, cooperation and prosperity throughout Southeast Europe. Stronger economic and

political institutions and social stability in Croatia, will further peace and stability throughout the region. USAID assistance program is structured around four Strategic Objectives designed to assist Croatia in accomplishing these goals:

- Growth of a dynamic and competitive private sector;
- More effective citizen participation and improved governance;
- Accelerated return and sustainable reintegration of war-affected populations; and
- Mitigation of adverse social conditions and trends.

Key Achievements:

USAID programs are aimed at ensuring that Croatia develops a fully democratic society and a productive market-oriented economy. Their achievements and potential stand on their own merits. Croatia's once corrupt privatization process has been overhauled and is now transparently processing tenders of state-owned enterprises; fiscal policies at both the central and local levels are more transparent; NGOs that were harassed and labeled traitors just two years ago, now can operate freely and openly under the protection of recently passed laws on associations; Croatia's first independent media outlet is now financially and technically independent; war-affected areas in selected municipalities are starting to show signs of economic and social revitalization as refugees continue to return to their place of origin; and Croatia's pension reform is a model for the region.

1. Business and Economic Development: USAID's economic sector programs are striving to improve the macroeconomic environment for private sector growth by delivering direct assistance to private organizations and enterprises. Additionally, USAID programs are assisting the GoC in implementing the structural reforms necessary for spur private sector growth.

Business and economic development activities have achieved important targets this year. First, USAID assistance in privatization has resulted in the restructuring, sale, and/or liquidation of 30 enterprises sold through public tender and the sale of shares from 700 companies, generating approximately \$132 million in revenue and approximately \$70 million in investment commitments. The Croatian Privatization Fund's portfolio has been reduced by 700 enterprises, reducing the level of cash subsidies from the Croatian Treasury.

Second, USAID-funded technical assistance led to the formation of the "National Competitiveness Council" where very senior level representatives from the private sector and government are collaborating on removing impediments to Croatia's competitiveness. The CEOs of some of the largest businesses in the country, key GoC officials (including the Deputy Prime Minister for Economic Affairs), national labor leaders, and the rectors of the country's most important universities, are working to develop a common action agenda focused on competitiveness. With USAID support, the Council succeeded in taking the steps necessary to be included in this year's World Economic Forum's worldwide competitiveness report.

Third, in enterprise development, USAID supported the 5,000 member Croatia Employer's Association (HUP) in establishing a sustainable Association for business consulting service providers to ensure quality standards for consultants. USAID helped the Association develop internationally-accredited certification programs for ISO, marketing and financial cost control to improve access to domestic and export markets for Croatian SMEs, and training of consultants is underway.

2. Democracy and Governance: USAID's efforts in helping to reform Croatia's nascent democratic institutions have witnessed several key results in FY 2002. Of 567 local governments, over 400 (over 75%) are using practices introduced by the project and thereby strengthening their capacity to assume increased responsibilities. Other cities have adopted asset management reforms introduced by USAID. This has led to immediate results as local governments are now able to increase revenues from assets that had never been previously used for income. USAID financing provided technical assistance, training and material support to independent print and broadcast media and to journalists' professional associations. As a result, 24 media outlets (13 radio, 4 print, 7 television) are now generating self sustaining revenue. Likewise, Croatia's only independent television network is now financially and technically independent and broadcasts high quality programs.

USAID's NGO support program provided assistance that resulted in significant improvement of the NGO infrastructure that enabled a group of six Croatian NGOs to become service providers for smaller NGOs as well as local governments. The program also helped NGOs to successfully lobby for changes to the Law on Social Welfare regarding benefits and work opportunities for persons with disabilities. Assistance to Croatia's political parties resulted in the creation of Party Coordinators whose role is to serve as liaisons between party headquarters, their branch offices and local elected representatives. Zagreb Municipal Court judges and staff have demonstrated improved case management capacity by increases of 4,400 civil case dispositions in 2001 over 2000. Case backlog has been reduced as a result of U.S. training, the provision of initial IT hardware, the introduction of new procedures to track backlog cases electronically, and the monitoring of caseload through new management reporting.

Future engagement in local government reform and NGO capacity building will help Croatia achieve levels of democratic reform comparable to graduate SEED countries.

3. Refugee Return and Reintegration: Assistance to further the return and reintegration of war-affected populations is being implemented through two programs involving infrastructure reconstruction of public utilities and community facilities, and economic and community revitalization of the war-affected regions. Although refugee returns to Croatia in CY 2002 (11,000) are about 7 percent lower than the previous year, the 1,665 refugees who returned to USAID partnership municipalities in CY 2002 represent a 30 percent increase over returns to these municipalities in the previous baseline year. Fifty-four percent of the refugees who returned to USAID's partnership municipalities were in the economically active age group of 18 to 50. To date 24 of the 91 infrastructure projects selected for funding have been completed. The remaining projects are in various stages of implementation. Approximately 13,000 families (approximately 40,000 people) residing in the 11 partnership municipalities plus eight surrounding municipalities have benefited from CIRP's infrastructure reconstruction program. These families are drinking clean and safe water, school and health services have resumed normal operations, power has been restored and community facilities have reopened.

Under ECRA, community committees representing all segments of the municipality facilitated by USAID implementing partners are functioning in ten of USAID's partnership municipalities. As of October 2002, ECRA activities created employment for almost 600 people, generated 88 new contracts worth over \$800,000 for assisted enterprises and leveraged \$330,000 of funding from other sources including commercial bank loans. Almost 3,500 people of all ethnic groups have participated in ECRA-assisted community activities and over 5,000 people received legal

assistance of which 35 percent had their cases resolved. An important result of the network of USAID-funded activities has been to create an optimistic, positive and up-beat atmosphere in the partnership municipalities. Residents and local government officials report that they feel like life has returned to their communities as a result of the multiple activities implemented in their communities by USAID. Eighty of the 100 beneficiary families have been selected for the housing reconstruction program and thirty of these families have actually begun repairing their homes.

4. Mitigating Adverse Social Conditions: USAID's social transition program address pension reform, strengthening of democratic labor organizations, unemployment programs, tripartite dialogue on social issues among labor, business and government, and efforts to increase public awareness in human trafficking and HIV/AIDS. A public education campaign mounted by the Government with USAID's support resulted in public awareness and support of the new "pillar two" pension system moving from 20% to 80% in the months leading up to public enrollment in the new system resulting in the enrollment of over 900,000 people. Significantly, this campaign has broken new ground and has become the model for similar GoC outreach efforts in privatization, and other critical reforms. Much of the success of the campaign was owed to USAID's interventions with Croatia's trade unions. One hundred trained union members went around the country informing union membership, approximately 70% of the entire workforce, about pension reform policy, rules, regulations and requirements. Over 50,000 persons were trained in over 1800 individual trainings and consequently contributed considerably to the increase in the acceptance of pension reform.

USAID's social transition activities have worked specifically with the Ministry of Labor and Social Welfare to ensure that legislation will be submitted to the GSV at least 14 days in advance of being submitted to the Parliament. In the past, legislation was provided one to two days in advance of going to Parliament, if at all.

5. Participant Training: In FY 2002, USAID/Croatia's training programs included 30 different programs in 14 countries, and trained a total of 442 participants at a total cost of \$1.1 million. USAID's participant training implementer, World Learning, provides essential services to support a broad range of short-term technical training in the United States and Europe. These programs are carefully tailored to support the Mission's strategic objectives and specific assistance activities. As such, they require thoughtful program development as well as careful logistical support, monitoring, evaluation and follow-up. Specific results include: Fifteen judges and 15 court administrative staff spent time learning about the Slovenian court automation system with the hope that a similar automation system could be set up in the Croatian courts. As a result, these participants now comprise a core group of court staff who understand automation and are supporting GoC efforts in this regard. In addition, the trip facilitated stronger links between the Slovenian and Croatian courts. A group of 11 young political journalists were selected to attend a special training at the BBC on broadcast methods and techniques. The expected results of this late FY2002 training are that these trainees will use the principles of objective political reporting learned at the BBC to broadcast more responsible and accurate reports, strengthening the overall quality of broadcast journalism.

As a result of a participant training experience in Denmark, representatives from several local governments agreed on the need for a set of statutes to provide guidance on decentralization. The statutes will be prepared under the auspices of the Croatian Association of Cities and Municipalities and distributed throughout the local government sector. USAID supported a series

of training seminars conducted by the Croatian Mine Action Center (CROMAC) for the media, local government officials and the officials of the national utility agencies. The purpose of the seminars was to educate these officials on the nature and scope of the problems and CROMAC's efforts to clear the country of mines. The seminars have resulted in more accurate reporting on the mine problem and better cooperation in setting priorities between local governments and the national utility agencies on the one hand, and CROMAC on the other. In addition, a Pension Reform Study Tour for journalists to Hungary offered journalists exposure to pension reform activities in another regional country. The purpose was to show that the Croatian Pension Reform takes into consideration all "lessons learned" from other countries and to give journalist opportunity to compare different systems. As the result of this trip, over a two month period, there was a significant increase in the number and tone of articles (79 in May and 76 in June) concerning the positive aspects of Croatian model verses others. Another program with an immediate result was the participation of an advisor to the Croatian Securities and Exchange Commission in program in Bulgaria on Enforcement and Market Oversight. Immediately on her return she used her experience to contribute to the law on securities market that was passed by Parliament.

Gender: Because of both economic and equity issues, gender affects program performance in all four of USAID/Croatia's Strategic Objectives, and has been embedded throughout the portfolio. The program consciously addresses the need for increased gender balance in areas such as advocacy through the Mission's NGO capacity building project and Labor Union and legislative strengthening activities. The country's serious economic problems and other political and social changes have affected both Croatian women and men in both rural and urban areas. In response, the Mission's enterprise promotion program, which includes specialized training in business development services, and our economic and community revitalization program in the war-affected areas strive for gender balance.

Trade Capacity: Although the Mission's programs do not include a specific trade capacity building activity, several programs are aimed toward building the institutions of the Croatian government to support increased trade as well as building the competitiveness of the private sector to participate in the global marketplace. The Commercial Law program is working to improve the effectiveness and efficiency of Croatia's commercial courts in order that investors and traders, foreign and domestic, can enter into transactions with confidence that property rights can be protected and disputes resolved expeditiously. Implementation of this activity is closely coordinated with a World Bank project focused on improvement in bankruptcy processes. USAID assistance to the Ministry of Finance is improving the GOC's capacity to manage its financial affairs and lower its borrowing costs, thereby increasing the confidence of the domestic and international business and financial community in Croatia's future. Assistance to the financial sector is focused on increasing the safety and soundness of the banking sector through improved bank supervision capacity in the Central Bank. With the support from USAID's Competitiveness project, a structured high level public/private dialogue is underway with the goal of improving Croatia's competitiveness and integration into the global trading economy. Finally, USAID programs are working to improve managerial capacity in Croatian enterprises in order that Croatian goods and services meet international standards and can enter into world trade.

Donor Relations: The U.S. Government and the European Union are the principle bilateral donors in Croatia. The IMF and the World Bank are the primary multilateral lenders. USAID's program played a valuable role in laying the groundwork for the larger IFI programs that are now starting. Significant new EU/CARDS and World Bank-funded structural reform programs are

beginning or being planned in many of the same areas USAID has been working (e.g. land registry and cadastre, fiscal reform and the justice sector). USAID/Croatia works closely with other donors in the development and implementation of activities. The World Bank, UNHCR and the European Union are the Mission's most active collaborators. USAID is implementing a technical assistance project closely linked to a World Bank automation project on Commercial Law Reform that aims to improve the efficiency of the commercial court system, which is consistently cited by the private sector as a significant impediment to doing business. Pension reform is another area of USAID-World Bank cooperation. USAID coordinates democracy and refugee reintegration assistance with the European Union, UNHCR, the Council of Europe, OSCE, and other bilateral donors, including British, Norwegian, Dutch, German, Swedish and Canadian governments. USAID-EU coordination on refugee return programs extends to the local level, where EU-funded housing reconstruction and USAID-financed infrastructure and economic development activities serve the same communities. Major private donors include the Open Society Institute and the C.S. Mott Foundation.

Environmental Compliance

The Mission reviewed all strategic objectives and determined that all current activities are in compliance with approved Initial Environmental Examinations (IEEs). The E&E Bureau's Environmental Officer visited the Mission in 2002 to update and ensure that all Environmental Assessments, Categorical Exclusions and all required mitigations and conditions are being followed.

Results Framework for Croatia

160-0130 [Growth of a Dynamic and Competitive Private Sector](#)

1.3.3.- Improved investment climate.

1.3.2.1- Adoption of improved enterprise management systems.

1.3.2.2- Strengthened business associations.

1.3.3.1- Business friendly legal and regulatory framework.

1.3.3.2- Improved transparency in government financial operations.

1.3.1- Competitive, transparent privatization of state owned enterprises

1.3.2.- Strengthened capacity of SMEs to operate and compete.

160-0210 [More Effective Citizen Participation and Improved Governance](#)

2.1.1- More effective citizen participation in political and economic decision-making.

2.1.1.1- Enhanced enabling environment for growth of effective CSOs and NGOs

2.1.1.2- Community-based civic action programs expanded/implemented.

2.1.1.3- Improved capacity of the NGO sector.

2.1.1.4- Strengthened political parties to be open, inclusive and representative of citizens.

2.1.2- Sustainable and balanced commercial media.

2.1.2.1- Journalists' professional standards improved.

2.1.2.2.- Management and business capacity of media organizations strengthened.

2.1.3- More efficient and responsive selected governance systems.

2.1.3.1- Local Government capacity to manage resources improved.

2.1.2.3- Court administration modernized to support more efficient and responsive judiciary.

160-0310 [Accelerated Return and Sustainable Reintegration of War-Affected Populations](#)

3.1.1- Infrastructure reconstructed and access to basic services provided.

3.1.2- Community-based economic programs create jobs and output in war-affected communities.

3.1.3- Increased community reintegration.

3.1.4- Information dissemination, and outreach promote return of refugees.

3.1.5- Market-based solutions meet housing needs of war-affected communities.

3.1.3.1- Social cohesion strengthened.

3.1.3.2- Legal assistance promotes property restitution and access to social entitlements.

160-0340 [Mitigation of Adverse Social Conditions and Trends](#)

3.4.1- Public acceptance of multi-pillar pension reform sustained

3.4.2- Tripartite dialogue contributed toward improved social and economic policies

3.4.3- Improved advocacy and protection for selected vulnerable groups

